



THE RHODESIAN JOURNAL OF ECONOMICS

The Quarterly Journal of the Rhodesian Economic Society

Editorial Board:

A. M. Hawkins (Editor), J. A. C. Girdlestone, A. F. Hunt,
D. I. Ramsay and M. L. Rule.

AFRICAN PARTICIPATION IN THE RHODESIAN ECONOMY

ARTICLES		Page
Meaningful Participation between Blacks and Whites in Southern Africa	J. N. Reddy	1
Factors Influencing Economic Development in Rural Areas	A. K. H. Weinrich	7
The African Retail Market	G. C. Msipa	15
Financing Participation	R. V. Wilde	21
Education for Participation	J. D. Cameron	39
African Participation in the Wage-Economy and the task of responsible companies	J. B. Knight	47

**The Rhodesian Economics Journal is published by the Rhodesian Economic Society,
P.O. Box M.P. 167, Mount Pleasant, Salisbury, and printed by Sebri Printers,
Martin Drive, Msasa, Salisbury.**

AFRICAN PARTICIPATION IN THE WAGE-ECONOMY AND THE TASK OF RESPONSIBLE COMPANIES

By J. B. KNIGHT*

I must explain at the start that my knowledge of the Rhodesian economy is very limited: I do not propose to examine the Rhodesian case directly. I have some knowledge of labour markets in certain African countries north of the Zambezi, and also of labour markets south of the Limpopo. Comparisons with countries to the north and to the south may well provide some valuable insights and inferences for the Rhodesian case. *Economically* — as well as geographically — Rhodesia lies somewhere in between them. *Politically*, the balance of power in Rhodesia is at present not dissimilar to that in South Africa. On the other hand, the future seems to indicate a transfer of power in the direction of that prevailing in some African countries to the North. I shall want to argue that the task of responsible companies in matters of African employment is closely bound up both with the country's level of economic development and with the political system within which the economy operates.

I wish to concentrate on two issues, the level of unskilled wages and the structure of earnings. I shall begin by examining the South African case. In 1973 a Select Committee of the British House of Commons held a public inquiry into the wages and conditions of employment of African workers employed by British companies in South Africa. The Committee's report provides a useful framework within which to examine these issues: it too was concerned with defining the task of responsible companies.¹

I shall assume familiarity with the characteristics of the labour market in South Africa, and therefore do no more than outline the relevant features. One is the rapid growth of the African population — which averaged 3.2% p.a. during the 1960's. There was a similar percentage growth of the labour force. Secondly there was a rapid growth of wage-employment — about 4% p.a. over that period. Nevertheless, the absolute number of Africans in the so-called 'Bantu Homelands' continued to grow. Even in 1955 the Tomlinson Commission expressed concern about overcrowding in the Homelands. Since 1955 the de facto population density of the Bantu Homelands has almost doubled. It is probable that underemployment has increased in the Homelands, and that they have become increasingly dependent on the remitted earnings of migrants employed in the wage-economy.

* Senior Research Officer, Institute of Economics and Statistics, and Fellow of St. Edmund Hall, University of Oxford.

¹ *Fifth Report from the Expenditure Committee, Session 1973-74, Wages and Conditions of African Workers Employed by British Firms in South Africa*, 1974, HMSO, London, 79p. net. The author acted as Specialist Adviser to the Committee; the views expressed here are, of course, entirely his own.

On the one hand, there is an abundance of unskilled labour, very largely African. On the other hand, it is probably the shortage of skilled and educated manpower — very largely White — which constrains the growth of the economy. Market forces operating in these circumstances generate very large differences in earnings from employment, based on skill and education and so correlated very closely with race. Nor are there institutional means to redress this gap. African trade unions are not illegal, but they enjoy no legal rights, and African unionism has been very weak. For majority of Africans, wages are determined by employers, subject to a minimum imposed by supply and demand. All the same, African average real earnings from employment increased by some 3.5% p.a. during the 1960's. Probably this was accompanied by a growth in inequality of income among the African population, with the urbanised Africans doing best, partly through skill acquisition, and those Homeland Africans without wage-sector breadwinners doing least well.

I turn to the question of minimum wages for the unskilled. A survey of African wages in the private sector in 1972 indicated that most British companies tended to pay roughly 'the going market rate' to African employees. At the time of the House of Commons inquiry, by contrast, many British companies claimed to pay more than their competitors. The Committee received a lot of evidence of large and rapid wage increases, particularly for the lowest-paid, during 1973; whether as a result of the widespread strikes, the press publicity, or the inquiry itself. A number of British companies — but by no means all — had set wage objectives in terms of the Poverty Datum Line (PDL). The PDL dates back to Rowntree in England at the turn of the century, and it has probably been developed more in South Africa than anywhere else in Africa. The Committee found no less than 37 different PDL estimates relating to 1973. The PDL is normally composed of the following items: sufficient food to provide each member of the household with the nutritional requirements for health; also clothing, fuel and light, cleaning materials and transport. Needless to say, there are significant differences in the estimates between cities, between town and country, and even for the same place at the same time. These variations correspond to different subjective judgements about minimum needs, differences in the prices used, and differences in the assumed size of family. A great problem with the PDL is its arbitrariness and subjectivity. Because the PDL excluded a number of items on which income is actually spent, another concept was introduced, the minimum effective level (MEL), and set at 50% above the PDL. The justification for this rule of thumb is that African household expenditure on items which are excluded from the PDL tends to be about half that on items which are included.

It is difficult to set up the PDL or the MEL as a hard-and-fast criterion for minimum wages. The sorts of problem which arise include the following:

which PDL to take, where a choice exists? Which wage — basic or including various sorts of bonus and fringe benefit — to compare with the PDL? The Committee took the view that only elements of the wage which are guaranteed and certain should be included for comparison. Should the PDL be applied to juvenile and female employees, who are normally not heads of households? Should the PDL be divided by 1.4 because total household income averages about 1.4 times that of the household head? The Committee rejected this practice because there is evidence that many households do contain only one earner. How can the PDL be applied to migrant workers who receive substantial benefits-in-kind and whose dependants live elsewhere? The Committee recognised the need to adapt the PDL to take account of benefits-in-kind; and it also stressed the need for information about income levels in the rural areas. What if no PDL exists for the company's place of operation? Some other PDL would have to be adapted or a new one commissioned. The Committee recognised and discussed all these problems; but they did not deter the Committee from recommending that companies should pay wages in excess of the PDL, at least to all their adult male employees, and that they should accept the MEL as the target, to be achieved according to a timetable.

The Committee had to bear in mind the possible harmful consequences of wage increases implied in its recommendations. Here it relied heavily on the evidence placed before it. A number of firms had argued that wage increases for unskilled labour would cause managers to economise on employment, both by using these workers more efficiently and by substituting machinery and skilled labour for unskilled labour. This was particularly stressed for agricultural and forestry estates, where there is plenty of scope for substitution; but the Committee received little evidence to suggest that it might be important in manufacturing. Nevertheless, it recognised that some firms faced a serious dilemma and qualified its recommendations accordingly. A number of companies complained of the effect of wage increases on their rate of profit. Those which pleaded limited 'capacity-to-pay' were often subject to price controls or to fierce competition; their problem would arise if they stepped significantly out of line from their competitors. Others were not in this position, and a number expressly said that low profitability would not impose a constraint on African wages. This is not surprising in view of the remarkably low proportion of total costs which African wage costs constituted in many cases. A number of the more progressive companies recognised the advantages to themselves of paying higher wages — high wages were said to improve the quality of labour recruitment and retention and to improve motivation. The Committee was not unmindful of the disadvantages, as well as the advantages, of British affiliates raising African wages — but it had to weigh them all up on the basis of the evidence presented to it, and find the right balance.

Another important issue on which the Committee made recommendations was the training and promotion of Africans, and the racial wage structure. In general there was not much divergence between these recommendations and the stated objectives of companies. Given the great shortage of skilled labour, companies had a profit incentive to train and advance non-Whites. However, companies appeared to be limited in what they could do. They were limited by custom and practice, by the fear of legal job reservation, by the limited education of many Blacks, and particularly by the opposition of registered trade unions and White workers. However, many witnesses claimed that significant job advancement of Africans had occurred in recent years.

In some companies there was a complete division between the work done by Whites and that done by Africans. At the dividing line there was often a large wage gap. In others a single non-racial wage structure was to be found, and there was in some of these cases a significant overlap in jobs done by the different races. These two different wage and employment structures reflect two different methods of advancing Africans into more skilled jobs. The first, where there is no overlap, retains the colour bar but moves it upwards in the hierarchy of jobs. Quite often there is so-called 'job fragmentation' and Africans take over previously White jobs at lower rates of pay and possibly — but not necessarily — lower degrees of skill. The second method is for Africans to join White workers and receive 'equal pay for equal work'. If African advancement is limited by the hostility of White workers or their trade unions, the application of this principle can serve to accelerate the promotion of Africans by providing security for White workers against the undercutting of their wages. Now, clearly there can be circumstances in which the payment of the rate for the job would actually retard the promotion of Africans. This result would be most likely to occur if African workers were less efficient than their White counterparts, or if employers through prejudice preferred to employ Whites rather than Africans unless the latter involved a profit advantage, and if there was no overall shortage of skilled labour. In fact the Committee received some evidence to suggest that African workers were often better than the Whites they replaced — which is not in the least surprising since the best of the African workers were replacing the least successful of the Whites. But the main reason why 'the rate for the job' would probably assist African advancement is the overwhelming shortage of skills of every type, which means that Whites do not feel threatened provided they are able to determine the wage.

It was for these reasons that the Committee recommended that company wage structure should be determined irrespective of race, according to the principles of job evaluation. However, it realised that this might prove difficult to achieve if White unions used their bargaining power to obtain wage increases in the jobs reserved for Whites in return for concessions on

African advancement into other jobs.

A number of witnesses before the Committee pointed out — and there is no good reason to doubt them — that their companies paid lower wages in other countries of Africa and elsewhere in the Third World. It sounds an odd sort of defence — “If you think this is low, just see what we can do when we really try” — but it was used. The Committee kept to its terms of reference, and all it would venture to say was the following: “Poverty is poverty wherever it is encountered, but, like the Department of Trade and Industry, we believe that South Africa is a rather special case”. But, if there is a case, based on company reputation or on morality, against British companies paying low wages in South Africa, does it not also apply in other low-wage countries? Another problem: What if the advice given to firms runs counter to the policies of the country’s government? After all, there are some governments, including some in Black Africa, which pursue a policy of wage restraint. policies of the country’s government? After all, there are some governments, First, let me explain briefly the evolution of labour markets and wage policies in Black Africa.

Some 20 years ago most African countries were colonies, very little industrialised, possessing only small urban populations, many of whom were temporary migrants from the rural areas. A stable urban African proletariat had not yet emerged to the extent that it had in the industrially more advanced South Africa. Today, the urban labour force in many an African country is probably more stabilised, containing a smaller proportion of temporary migrants, than in South Africa. This change is worth exploring; it is closely connected with the behaviour of wages. In African conditions, where farmers are willing to offer their services in the towns as wage-labour on a temporary basis, the supply curve of rural labour is frequently little higher than the cost of supporting a single man in the town. If market forces operate, the unskilled wage rate is kept at this level by competition, and it is difficult for the economy to emerge automatically from the system of low wages, low productivity and inefficient migrant labour. This *may* occur if employers find that they have an incentive to take the initiative. With the growth of industry and modern services, there is an increasing demand for semi-skilled and skilled workers in these activities. Skills require training and training is wasted if labour is temporary. Employers may, therefore, wish to pay wages sufficiently high to encourage their semi-skilled and skilled workers to settle in the town. Their wages become based on the alternative income of a family rather than that of a single migrant. Employers are less likely to expect that the wages of unskilled workers can profitably be raised. Even in the case of unskilled labour, large capital-intensive companies may choose to raise wages above market levels, because the effect on profits is often very small and because they see the payment of high wages as a form of insurance in a potentially hostile environment; it may be a way of securing the loyalty of

employees, of avoiding charges of 'exploitation', and of reducing the threat of nationalisation.

There are instances in Black Africa of governments taking the initiative to raise unskilled wages. This has been done, either by means of wage leadership or minimum wage legislation, as a deliberate policy of stabilising labour or as a response to political pressures from urban workers. In some African countries trade unions have become important. But because it is difficult to organise uncommitted, migrant workers, unions are likely to become influential only after wage rises and labour stabilisation have got under way.

Real wages have indeed risen very rapidly in many African countries over the last 20 years; at the same time the urban labour force has become more stabilised. The growing gap between rural incomes and prospective real wages in the town induced a large inflow of labour from the rural areas. It also produced growing urban unemployment and underemployment among those who could not find modern sector jobs. Those who could find modern sector jobs clung onto them; they became committed urban workers, living with their families and expecting to stay in the towns for many years.

Rapidly increasing real wages, rising well above rural incomes, have led various economists to recommend policies of wage restraint. The sorts of argument in favour of such restraint include the following:

1. Wage increases cause employers to substitute capital, skilled labour and improved management for unskilled labour, so reducing employment. The same result occurs in the public sector, where a budget constraint forces cuts in employment.
2. Wage increases raise costs and so reduce the profitability of production in sectors where competition from abroad or price controls prevent profits from being restored by means of price increases. As a result production, investment and employment suffer.
3. Wage increases affect saving adversely, by redistributing income from profits to wages, and so from those who save much to those who save little; hence saving is reduced. In so far as wages are more difficult to tax than profits, the redistribution also reduces taxation and hence public saving.
4. In so far as wage increases result in increased prices of modern sector products, the real income of those in the rural areas is reduced.
5. Wage increases, although they reduce differentials within the modern sector, create greater inequality between the modern sector and the rural areas.
6. This growing inequality in income as between the rural areas and the modern sector attracts people to the towns. The effect is to harm agriculture and to cause urban unemployment and poverty in urban traditional sector activities.

7. Wage increases raise the cost of various public services, and so diminish their provision.
8. The redistribution of income implied by the wage increases may tighten the foreign exchange constraint on development by increasing the demand for imports or deterring the inflow of foreign capital.

But the arguments do not all run in one direction. Wage increases have, after all, broken down the system of migratory labour, which is often economically inefficient and is regarded as socially harmful. Wage increases may help to raise labour efficiency also by improving the nutrition, health and incentive of workers. Another argument is that urban workers have a high propensity to spend additional income on domestically produced manufactures; wage increases, therefore, raise the demand for industrial products, and — so the argument runs — it is lack of demand which constrains industrial development which should be encouraged because it is subject to externalities. A social argument in favour of a rural-urban income gap is that poverty is a relative thing, and that urban workers — as a result of living in town — become more acquisitive and frustrated than rural people.

It is one thing to set out these arguments, quite another to establish their quantitative importance. Detailed case studies of the effects of wage behaviour in African countries are as yet sparse and inconclusive. However, at least four sets of economists (including myself) have examined Zambian wages since the time of Independence, and all have come out in favour of wage restraint. Moreover, that is now the policy of the Zambian Government. And yet — as far as one can judge — African wages in Zambian manufacturing are no higher than in South African manufacturing; and in East Africa they are almost certainly lower. If the responsible employer is expected to raise unskilled wages in South Africa, should he not also do so in those Black African countries in which unskilled wages are just as low? Is South Africa a special case?

Before considering this question, I wish to say a little about wage structure in Black Africa. At the time of Independence, most African countries inherited a very inegalitarian structure of wages, possibly more unequal even than that in South Africa. The income of professional and highly skilled people was determined by whatever was necessary to attract them from Europe. In the period shortly before Independence, the advancement of local people to professional and administrative ranks was generally accompanied by a demand for 'equal pay for equal work', which in many cases was acceded to by the colonial authorities. At Independence the European workers received an 'overseas addition' or 'expatriate allowance' in addition to the basic pay, to compensate them for becoming expatriates who would be employed only for as long as they were needed. The introduction

of an 'expatriate allowance' meant that it was now possible for local salaries to fall, and those African governments concerned to achieve greater equality of income attempted to do this. But there were two obstacles. One was market forces: with acute scarcities of high-level manpower, competing employers in the private and parastatal sector, bid up the price of this scarce factor. Secondly, there was the political strength of the new educated élite: this was used to protect their earnings in the dominant public sector. The present situation of great inequality is likely to continue until the rapidly expanding educational system begins to turn out excessive supplies of educated people. Only then, with the disappearance of the expatriates and much greater competition to get jobs, will the premium paid for education be shaken down significantly.

The implications of this analysis is that in many Black African countries the responsible employer will be paying *different* rates for the same job, a lower one to citizens and a higher one to non-citizens employed temporarily. In practice, because the citizen/non-citizen division often corresponds with the African/European division, it may appear that the employer is practising racial discrimination. However, this discrimination between citizens and non-citizens is encouraged and indeed practised by government, in an attempt to ensure greater equality of income within the society in the long run.

I come back to the question of whether a responsible employer should pursue any different policy for unskilled wages in South Africa than in Black Africa. On one main count, South Africa is *not* a special case. It too appears to have a problem of underemployment. In South Africa and Black Africa alike, the need for employment creation is a strong one. However, a distinction can be made in at least two respects.

South Africa does differ from many Black African countries in that a significant part — perhaps half — of the African labour force engaged in the modern sector are migrant workers. High payments to migrants do spread, via remittances to dependants, to the poorest section of the population in the Bantu Homelands. Only 26% of adult male Africans were in the Bantu Homelands at the time of the 1970 census, and some of these may have been 'resting'. In Black Africa only a small minority of workers benefit from wage increases, whereas in South Africa the majority of Africans do so. Even if the growth of employment is restricted as a result of wage increases, provided that the elasticity of demand for labour is less than unity, the wage bill will rise; and so also, very likely, will remittances to the Homelands. Only those Homeland families whose breadwinners are deprived of wage employment by the wage increases will actually suffer.

Perhaps the basic difference between South Africa and other African countries lies in the nature of their governments? It would be contrary to

human nature in the mass if the South African government, elected by an all-White electorate, did not primarily pursue the interests of the Whites. It is plausible that the government pursues the economic welfare of Africans only in so far as the electorate perceives that to be in their interests. But one might well ask who it is that the governments of various African countries represent? It is a plausible hypothesis that, in a number of countries, the mass of the people on the land tend to be neglected through their lack of voice, organisation and effective power.

It is arguable that a policy of holding down unskilled wages is morally justified only as a part of a more general government policy for achieving a more equitable distribution of income, i.e., it is unfair to impose sacrifice on wage-earners in the interests of the poorest if sacrifice is not also imposed on the richest. It follows that a policy of restraining unskilled wages could be justified neither in South Africa nor in a number of other African countries. But that is not the only value judgement which might be made. *If* it can be shown that the poorest *do* benefit significantly, then the case for wage-restraint as a second-best policy may still stand.

Even if a case can be made out for a policy of wage restraint in the interests of the community as a whole, is that really a matter for the individual employer? Should his responsibility not lie primarily with his own employees? But if the government has formulated a policy of wage restraint, is it responsible action for an employer to raise the minimum wage to the PDL or MEL level in defiance of government policy? Basically, the respect one gives to a government and the extent to which one acknowledges its right to formulate policies for its subjects must depend on a value judgement. Even if government is fully respected, the individual employer normally has some discretion, because government wage policies are often rather imprecise. The South African Government has a stated policy of narrowing the racial wage gap, although it has not used its own considerable powers to any great extent, in the pursuit of this objective. The policies of those African Governments pursuing wage restraint are inevitably fairly flexible. So employers often *do* have some measure of choice within the overall framework of government policy.

My general conclusion is that there may well be a case for distinguishing between South Africa and some Black African countries in the matter of company wage policy. South Africa differs in at least two respects. First, the much greater level of economic development in South Africa means that a far higher proportion of Africans are engaged in the wage-economy, so that a much larger part of the African population stands to gain, and a smaller part stands to lose, as a result of wage increases in the wage-economy. Secondly, there is the political point. Wage increases for Africans in the modern sector are in conformity with stated government policy in

South Africa, and against government policy in some countries of Black Africa. Moreover, wage increases for Africans tend to help most of the people who are politically under-represented in South Africa, whereas in many Black African countries, wage increases in the modern sector tend to help a small group already possessing disproportionate political power, the urban workers; and may harm the often neglected masses in peasant agriculture.

Finally what is the implication of all this for wages policy in Rhodesia? I have suggested that Rhodesia lies somewhere between South Africa and Black Africa in the extent of African participation in the wage-economy. The precise extent of participation determines the number of Africans who gain and the number who lose from modern sector wage increases. This is an important consideration in determining a wages policy. Another consideration is the quantitative extent of gains and losses. For instance, to what extent do increases in money wages paid to African workers result in real wage increases? Will these gains be inflated away as a result of the political and economic power of other groups? To what extent do peasant farmers lose as a result of wage increases in the modern sector, e.g., as a result of the reduction in, or slower growth of, wage-employment, or as a result of higher prices of the goods they buy? Politics cannot be ignored, but it is not easy to say anything sensible on this in the present state of uncertainty about Rhodesia's political future. Government wage policies now and in the future may well be determined primarily by a political factor — whether it reflects, e.g., a lack of concern for the unrepresented, or a need to placate township discontent, or a response to a disproportionately powerful pressure group, or a growing concern for the welfare of those outside the wage-economy. Given government wages policy, the responsible employer will normally have to operate within that framework. But he will still have some scope for choice, given the usual amount of flexibility in policy.

Beware the foreign expert who flies in and offers instant economic advice! My intention has been simply to provide a conceptual framework within which participants in the symposium can examine the Rhodesian case. However, if in conclusion I may be allowed to offer an opinion about Rhodesia in its current state of political and economic development, it is that the recommendations on African wage levels and wage structure in South Africa, which were made by the House of Commons Committee, should be seriously considered also by responsible employers in Rhodesia.

Institute of Economics and Statistics,
Oxford University.



This work is licensed under a
Creative Commons
Attribution – NonCommercial - NoDerivs 3.0 License.

To view a copy of the license please see:
<http://creativecommons.org/licenses/by-nc-nd/3.0/>

This is a download from the BLDS Digital Library on OpenDocs
<http://opendocs.ids.ac.uk/opendocs/>